

**REPORT OF THE AUDIT OF THE  
FLEMING COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Larry Foxworthy, Fleming County Judge/Executive

Members of the Fleming County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fleming County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Fleming County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Fleming County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above include only the primary government of Fleming County, Kentucky, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise Fleming County's legal entity. The financial statements do not include financial data for Fleming County's legally separate component units, which accounting principles generally accepted in the United States of America as they relate to the modified cash basis of accounting require to be reported with the financial data for Fleming County's primary government. As a result, the primary government's financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Fleming County, Kentucky, as of June 30, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with the modified cash basis of accounting.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Larry Foxworthy, Fleming County Judge/Executive  
Members of the Fleming County Fiscal Court

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the primary government of Fleming County, Kentucky, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of Fleming County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements of Fleming County, Kentucky. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2006 on our consideration of Fleming County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

2005-1 The County Should Maintain An Accurate Encumbrance List

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

Audit fieldwork completed -  
April 28, 2006

## FLEMING COUNTY OFFICIALS

For The Year Ended June 30, 2005

### **Fiscal Court Members:**

Larry Foxworthy	County Judge/Executive
Ray Money	Magistrate
Roger Jolly	Magistrate
Larry Dearing	Magistrate
Steve Call	Magistrate
Kenneth Sowder	Magistrate
Chris Hickerson	Magistrate

### **Other Elected Officials:**

John Price	County Attorney
Gary Conley	Jailer
Marilyn Spencer	County Clerk
Pam Lowe	Circuit Court Clerk
Jerry Wagner	Sheriff
Connie Crane	Property Valuation Administrator
Joe Denton	Coroner

### **Appointed Personnel:**

Kathryn Dryden	County Treasurer
Angie Stephens	Finance Officer

**FLEMING COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**

**FLEMING COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

June 30, 2005

	<u>Primary</u> <u>Governmental</u> <u>Governmental</u> <u>Activities</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 1,283,607
Total Current Assets	<u>1,283,607</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	262,600
Construction In Process	8,500
Buildings	249,870
Other Equipment	582,352
Vehicles and Equipment	230,978
Infrastructure Assets - Net of Depreciation	<u>518,272</u>
Total Noncurrent Assets	<u>1,852,572</u>
Total Assets	<u>3,136,179</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations	<u>147,545</u>
Total Current Liabilities	<u>147,545</u>
Noncurrent Liabilities:	
Financing Obligations	<u>13,792</u>
Total Noncurrent Liabilities	<u>13,792</u>
Total Liabilities	<u>161,337</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,691,235
Unrestricted	<u>1,283,607</u>
Total Net Assets	<u><u>\$ 2,974,842</u></u>

**FLEMING COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



FLEMING COUNTY  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,013,842	\$ 11,794	\$ 933,435	\$ 1,178,334
Protection to Persons and Property	590,111	35,889	99,704	
General Health and Sanitation	65,014	6,800		
Social Services	31,003		63,403	
Recreation and Culture	546,727			
Roads	897,258	5,580	756,413	
Road Facilities	4,500			
Debt Service	189,594			
Capital Projects	620,908			
Total Governmental Activities	\$ 4,958,957	\$ 60,063	\$ 1,852,955	\$ 1,178,334

FLEMING COUNTY  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
For The Year Ended June 30, 2005  
(Continued)

Functions/Programs Reporting Entity	Net (Expenses) Revenues and Changes in Net Assets Primary Government
<u>Primary Government:</u>	
Governmental Activities:	
General Government	\$ 109,721
Protection to Persons and Property	(454,518)
General Health and Sanitation	(58,214)
Social Services	32,400
Recreation and Culture	(546,727)
Roads	(135,265)
Road Facilities	(4,500)
Debt Service	(189,594)
Capital Projects	(620,908)
Total Governmental Activities	<u>(1,867,605)</u>
General Revenues:	
Taxes:	
Real Property Taxes	601,704
Personal Property Taxes	8,279
Motor Vehicle Taxes	120,864
Other Taxes	164,412
Excess Fees	94,524
E-911 Fees	285,763
Unrestricted Investment Earnings	47,232
Miscellaneous Revenues	<u>445,483</u>
Total General Revenues	<u>1,768,261</u>
Change in Net Assets	<u>(99,344)</u>
Net Assets - Beginning	<u>3,074,186</u>
Net Assets - Ending	<u><u>\$ 2,974,842</u></u>

**FLEMING COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

**FLEMING COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2005

	General Fund	Road Fund	LGEA Fund	Revolving Loan Fund	Dispatch Fund
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 384,169	\$ 47,059	\$ 179,124	\$ 122,866	\$ 137,459
Total Assets	<u>\$ 384,169</u>	<u>\$ 47,059</u>	<u>\$ 179,124</u>	<u>\$ 122,866</u>	<u>\$ 137,459</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$ 49,368	\$ 8,901		\$	\$
Unreserved:					
General Fund	334,801				
Special Revenue Funds		38,158	179,124	122,866	137,459
Total Fund Balances	<u>\$ 384,169</u>	<u>\$ 47,059</u>	<u>\$ 179,124</u>	<u>\$ 122,866</u>	<u>\$ 137,459</u>

**Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:**

Total Fund Balances	\$ 1,283,607
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets of \$3,139,435 Net of Accumulated Depreciation of \$1,286,863	
Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	1,852,572
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	<u>(161,337)</u>
Net Assets Of Governmental Activities	<u>\$ 2,974,842</u>

FLEMING COUNTY  
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
June 30, 2005  
(Continued)

	Capital Improvement Fund	Non Major Funds	Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 407,819	\$ 5,111	\$ 1,283,607
Total Assets	<u>\$ 407,819</u>	<u>\$ 5,111</u>	<u>\$ 1,283,607</u>
FUND BALANCES			
Reserved for:			
Encumbrances		\$ 99	\$ 58,368
Unreserved:			
General Fund			334,801
Special Revenue Funds	<u>407,819</u>	<u>5,012</u>	<u>890,438</u>
Total Fund Balances	<u>\$ 407,819</u>	<u>\$ 5,111</u>	<u>\$ 1,283,607</u>

**FLEMING COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**FLEMING COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

	General Fund	Road Fund	LGEA Fund	Revolving Loan Fund
<b>REVENUES</b>				
Taxes	\$ 893,539	\$	\$	\$
Excess Fees	94,524			
Licenses and Permits	8,649			
Intergovernmental	703,899	1,180,659	93,303	1,000,000
Charges for Services	100			
Miscellaneous	353,096	19,572	20	4,520
Interest	28,311	3,533	3,626	3,467
Total Revenues	<u>2,082,118</u>	<u>1,203,764</u>	<u>96,949</u>	<u>1,007,987</u>
<b>EXPENDITURES</b>				
General Government	514,128			1,342,665
Protection to Persons and Property	143,089	36,316		
General Health and Sanitation	36,764	27,962		
Social Services	31,003			
Recreation and Culture	536,301			
Roads		1,147,509		
Road Facilities				4,500
Debt Service	64,830	112,000	12,764	
Capital Projects	584,930	35,978		
Administration		139,915	20	20
Total Expenditures	<u>1,911,045</u>	<u>1,499,680</u>	<u>12,784</u>	<u>1,347,185</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	171,073	(295,916)	84,165	(339,198)
Other Financing Sources (Uses)				
Transfers From Other Funds		115,000	(115,000)	
Transfers To Other Funds	(192,000)			
Total Other Financing Sources (Uses)	<u>(192,000)</u>	<u>115,000</u>	<u>(115,000)</u>	
Net Change in Fund Balances	(20,927)	(180,916)	(30,835)	(339,198)
Fund Balances - Beginning	405,096	227,975	209,959	462,064
Fund Balances - Ending	<u>\$ 384,169</u>	<u>\$ 47,059</u>	<u>\$ 179,124</u>	<u>\$ 122,866</u>

FLEMING COUNTY  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
For The Year Ended June 30, 2005  
(Continued)

	Dispatch Fund	Capital Improvement Fund	Non- Major Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 285,763	\$	\$ 1,720	\$ 1,181,022
Excess Fees				94,524
Licenses and Permits				8,649
Intergovernmental	88,445		48,554	3,114,860
Charges for Services			33,593	33,693
Miscellaneous	2,384	20	20	379,632
Interest	2,397	5,898		47,232
Total Revenues	378,989	5,918	83,887	4,859,612
<b>EXPENDITURES</b>				
General Government				1,856,793
Protection to Persons and Property	211,791		228,825	620,021
General Health and Sanitation				64,726
Social Services				31,003
Recreation and Culture				536,301
Roads				1,147,509
Road Facilities				4,500
Debt Service				189,594
Capital Projects				620,908
Administration	33,810	153	9,461	183,379
Total Expenditures	245,601	153	238,286	5,254,734
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	133,388	5,765	(154,399)	(395,122)
<b>Other Financing Sources (Uses)</b>				
Transfers From Other Funds	35,000	100,000	157,000	292,000
Transfers To Other Funds	(100,000)			(292,000)
Total Other Financing Sources (Uses)	(65,000)	100,000	157,000	
Net Change in Fund Balances	68,388	105,765	2,601	(395,122)
Fund Balances - Beginning	69,071	302,054	2,510	1,678,729
Fund Balances - Ending	\$ 137,459	\$ 407,819	\$ 5,111	\$ 1,283,607



**FLEMING COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

FLEMING COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (395,122)
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	333,268
Depreciation Expense	(170,039)
Net Book Value of Disposed Assets	(4,500)

Financing obligation and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

However, these transactions have no effect on net assets.

Financing Obligations	<u>137,049</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ (99,344)</u></u>
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**FLEMING COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Fleming County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. The reporting entity previously included these organizations that are legally separate from the primary government.

**Public Properties Corporation**

The Public Properties Corporation is a legally separate entity established to provide long-term debt service for the fiscal court. The Public Properties Corporation's governing body consists entirely of fiscal court members. Therefore, management must include the Public Properties Corporation as a component unit and the financial information should be blended with that of the fiscal court. However, since there was no financial activity for the Public Properties Corporation, financial statement disclosure has been excluded.

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Fleming County Hospital District

Fleming County Hospital District (District) is a legally separate entity established to operate as the Fleming County Hospital. The Fleming County Fiscal Court appoints all of the District's directors. Management should include the District as a discretely presented component unit, but has elected to exclude the District from presentation in the County's financial statements. However, separate audited financial statements can be obtained by contacting:

Ron Harrington  
Fleming County Hospital  
920 Elizaville Avenue  
Flemingsburg, Kentucky 41041

C. Fleming County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Fleming County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Fleming County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs. The county does not have business-type activities or fiduciary funds.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivable, accounts payable, compensated absences, and donated assets are not reflected in the financial statement.

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for funds earmarked for economic development. The primary sources of revenue for this fund are from the state. Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund

Revolving Loan Fund - The purpose of this fund is to account for funds received from reimbursements of a Community Development Block Grant used for low interest loans to qualifying businesses.

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Dispatch Fund – The purpose of this fund is to account for funds associated with providing emergency response services to Fleming County.

Capital Improvements Fund – The purpose of this fund is to account for capital projects relating to building maintenance.

The primary government also has the following non-major funds: Jail Fund and Forestry Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Forestry Fund, Revolving Loan Fund, Dispatch Fund, and Capital Improvement Fund are presented as special revenue funds. Special revenue funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 31 following the assessment, and subject to lien and sale April 30 following the delinquency date.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. However, the county has elected not to report major general infrastructure assets retroactively.

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.



FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005  
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Decreases
<b>Primary Government:</b>			
<b><u>Governmental Activities:</u></b>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 247,600	\$ 15,000	\$
Construction In Process		8,500	
Total Capital Assets Not Being Depreciated	247,600	23,500	
Capital Assets, Being Depreciated:			
Buildings	878,500		
Other Equipment	858,438	125,628	
Vehicles and Equipment	385,052	6,000	(9,000)
Infrastructure	445,577	178,140	
Total Capital Assets Being Depreciated	2,567,567	309,768	(9,000)
Less Accumulated Depreciation For:			
Buildings	(613,324)	(15,306)	
Other Equipment	(325,729)	(75,985)	
Vehicles and Equipment	(137,714)	(17,860)	4,500
Infrastructure	(44,557)	(60,888)	
Total Accumulated Depreciation	(1,121,324)	(170,039)	4,500
Total Capital Assets, Being Depreciated, Net	1,446,243	139,729	(4,500)
Governmental Activities Capital Assets, Net	<u>\$ 1,693,843</u>	<u>\$ 163,229</u>	<u>\$ (4,500)</u>
 <b><u>Governmental Activities:</u></b>			
General Government		\$ 10,665	
Protection to Persons and Property		49,307	
General Health and Sanitation		288	
Recreation and Culture		10,426	
Roads, Including Depreciation of General Infrastructure Assets		99,353	
Total Depreciation Expense - Governmental Activities		<u>\$ 170,039</u>	

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005  
(Continued)

**Note 4. Short-term Debt**

In July 2004, Fleming County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$1,606,500, with principal being due in January 2005. While the county did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$4,792.

**Note 5. Financing Obligations**

**A. Capital Lease – Road Paving**

On August 20, 2000, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the paving of county roads. The agreement requires variable monthly payments for 60 months to be paid in full July 20, 2005. The principal balance of the agreement was \$110,000 as of June 30, 2005. Lease payments for the remaining year is:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	<u>\$ 110,000</u>	<u>\$ 440</u>

**B. Capital Lease – Courthouse Renovation**

On August 28, 2001, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the renovation of the Courthouse. The agreement requires variable monthly payments for 60 months to be paid in full January 20, 2006. The principal balance of the agreement was \$20,000 as of June 30, 2005. Lease payments for the remaining year is:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	<u>\$ 20,000</u>	<u>\$ 397</u>

**C. Capital Lease – Ambulance And Life Saving Equipment**

On August 28, 2001, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the purchase of an ambulance and life saving equipment. The agreement requires variable monthly payments for 60 months to be paid in full August 28, 2007. The principal balance of the agreement was \$6,847 as of June 30, 2005. Lease payments for the remaining years are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 5,479	\$ 187
2007	<u>1,368</u>	<u>10</u>
Totals	<u>\$ 6,847</u>	<u>\$ 197</u>

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005  
(Continued)

**Note 5. Financing Obligations (Continued)**

**D. Capital Lease – Dump Truck**

On November 8, 2002, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the purchase of a dump truck. The agreement requires variable monthly payments for 60 months to be paid in full January 20, 2007. The principal balance of the agreement was \$24,490 as of June 30, 2005. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 12,066	\$ 496
2007	<u>12,424</u>	<u>185</u>
Totals	<u>\$ 24,490</u>	<u>\$ 681</u>

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Primary Government:</b>					
<b><u>Governmental Activities:</u></b>					
Financing Obligations	<u>\$ 298,386</u>	<u>\$</u>	<u>\$ 137,049</u>	<u>\$ 161,337</u>	<u>\$ 147,545</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 298,386</u>	<u>\$</u>	<u>\$ 137,049</u>	<u>\$ 161,337</u>	<u>\$ 147,545</u>

**Note 6. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$52,545 in interest on financing obligations.

**Note 7. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005  
(Continued)

**Note 7. Employee Retirement System (Continued)**

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 8. Deferred Compensation**

On February 24, 2000, the Fleming County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 9. Insurance**

For the fiscal year ended June 30, 2005, Fleming County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**FLEMING COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**

**FLEMING COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 836,700	\$ 836,700	\$ 893,539	\$ 56,839
Excess Fees	92,048	92,048	94,524	2,476
Licenses and Permits	9,000	9,000	8,649	(351)
Intergovernmental Revenue	1,020,380	1,091,840	703,899	(387,941)
Charges for Services	100	100	100	
Miscellaneous	320,150	487,150	353,096	(134,054)
Interest	25,250	25,250	28,311	3,061
Total Revenues	<u>2,303,628</u>	<u>2,542,088</u>	<u>2,082,118</u>	<u>(459,970)</u>
<b>EXPENDITURES</b>				
General Government	558,542	573,639	514,128	59,511
Protection to Persons and Property	139,285	206,740	143,089	63,651
General Health and Sanitation	46,740	47,390	36,764	10,626
Social Services	38,750	38,750	31,003	7,747
Recreation and Culture	875,500	875,500	536,301	339,199
Debt Service	1,606,884	1,636,085	1,635,730	355
Administration	725,127	866,949	584,930	282,019
Total Expenditures	<u>3,990,828</u>	<u>4,245,053</u>	<u>3,481,945</u>	<u>763,108</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,687,200)</u>	<u>(1,702,965)</u>	<u>(1,399,827)</u>	<u>303,138</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Kentucky Advanced Revenue Program	1,570,900	1,570,900	1,570,900	
Transfers To Other Funds	(283,700)	(283,700)	(192,000)	91,700
Total Other Financing Sources (Uses)	<u>1,287,200</u>	<u>1,287,200</u>	<u>1,378,900</u>	<u>91,700</u>
Net Changes in Fund Balance	(400,000)	(415,765)	(20,927)	394,838
Fund Balance - Beginning	<u>400,000</u>	<u>415,765</u>	<u>405,096</u>	<u>(10,669)</u>
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 384,169</u>	<u>\$ 384,169</u>

FLEMING COUNTY  
BUDGETARY COMPARISON SCHEDULES  
Required Supplementary Information - Modified Cash Basis  
For The Year Ended June 30, 2005  
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts. (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 956,930	\$ 1,195,265	\$ 1,180,659	\$ (14,606)
Miscellaneous	7,500	7,500	19,572	12,072
Interest	2,700	2,700	3,533	833
Total Revenues	967,130	1,205,465	1,203,764	(1,701)
<b>EXPENDITURES</b>				
Protection to Persons and Property	13,000	51,340	36,316	15,024
General Health And Sanitation	44,540	44,549	27,962	16,587
Roads	980,578	1,214,068	1,147,509	66,559
Debt Service	147,120	147,600	147,600	
Capital Projects		35,978	35,978	
Administration	164,492	150,505	139,915	10,590
Total Expenditures	1,349,730	1,644,040	1,535,280	108,760
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(382,600)	(438,575)	(331,516)	107,059
<b>OTHER FINANCING SOURCES (USES)</b>				
Kentucky Advanced Revenue Program Proceeds	35,600	35,600	35,600	
Transfers From Other Funds	175,000	175,000	115,000	(60,000)
Total Other Financing Sources (Uses)	210,600	210,600	150,600	(60,000)
Net Changes in Fund Balance	(172,000)	(227,975)	(180,916)	47,059
Fund Balance - Beginning	172,000	227,975	227,975	
Fund Balance - Ending	\$	\$	\$ 47,059	\$ 47,059

FLEMING COUNTY  
BUDGETARY COMPARISON SCHEDULES  
Required Supplementary Information - Modified Cash Basis  
For The Year Ended June 30, 2005  
(Continued)

	LGEA FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 90,907	\$ 90,907	93,303	\$ 2,396
Miscellaneous	50	50	20	(30)
Interest	2,000	2,000	3,626	1,626
Total Revenues	92,957	92,957	96,949	3,992
EXPENDITURES				
Roads	103,000	103,000		103,000
Debt Service	12,769	12,769	12,764	5
Administration		20	20	
Total Expenditures	115,769	115,789	12,784	103,005
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(22,812)	(22,832)	84,165	106,997
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(127,188)	(187,127)	(115,000)	72,127
Total Other Financing Sources (Uses)	(127,188)	(187,127)	(115,000)	72,127
Net Changes in Fund Balances	(150,000)	(209,959)	(30,835)	179,124
Fund Balances - Beginning	150,000	209,959	209,959	
Fund Balances - Ending	\$	\$	\$ 179,124	\$ 179,124



FLEMING COUNTY  
BUDGETARY COMPARISON SCHEDULES  
Required Supplementary Information - Modified Cash Basis  
For The Year Ended June 30, 2005  
(Continued)

REVOLVING LOAN FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$
Miscellaneous			4,520	4,520
Interest	520	520	3,467	2,947
Total Revenues	1,000,520	1,000,520	1,007,987	7,467
EXPENDITURES				
General Government	1,000,000	1,342,665	1,342,665	
Road Facilities	4,500	4,500	4,500	
Administration	16,020	115,419	20	115,399
Total Expenditures	1,020,520	1,462,584	1,347,185	115,399
Net Changes in Fund Balance	(20,000)	(462,064)	(339,198)	122,866
Fund Balance - Beginning	20,000	462,064	462,064	
Fund Balance - Ending	\$	\$	\$ 122,866	\$ 122,866

FLEMING COUNTY  
BUDGETARY COMPARISON SCHEDULES  
Required Supplementary Information - Modified Cash Basis  
For The Year Ended June 30, 2005  
(Continued)

DISPATCH FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
REVENUES				
Taxes	\$ 265,000	\$ 265,000	\$ 285,763	\$ 20,763
Intergovernmental Revenue	70,000	70,000	88,445	18,445
Miscellaneous	1,000	1,000	2,384	1,384
Interest	600	600	2,397	1,797
Total Revenues	336,600	336,600	378,989	42,389
EXPENDITURES				
Protection to Persons and Property	242,777	252,848	211,791	41,057
Administration	203,823	193,752	33,810	159,942
Total Expenditures	446,600	446,600	245,601	200,999
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(110,000)	(110,000)	133,388	243,388
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	30,000	30,000	35,000	5,000
Transfers To Other Funds			(100,000)	(100,000)
Total Other Financing Sources (Uses)	30,000	30,000	(65,000)	(95,000)
Net Changes in Fund Balances	(80,000)	(80,000)	68,388	148,388
Fund Balances - Beginning	80,000	80,000	69,071	(10,929)
Fund Balances - Ending	\$	\$	\$ 137,459	\$ 137,459

FLEMING COUNTY  
BUDGETARY COMPARISON SCHEDULES  
Required Supplementary Information - Modified Cash Basis  
For The Year Ended June 30, 2005  
(Continued)

CAPITAL IMPROVEMENTS FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts. (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental	\$ 275,000	\$ 275,000	\$	\$ (275,000)
Miscellaneous			20	20
Interest	3,020	3,020	5,898	2,878
Total Revenues	<u>278,020</u>	<u>278,020</u>	<u>5,918</u>	<u>(272,102)</u>
<b>EXPENDITURES</b>				
General Government	1,000	1,000		1,000
Protection to Persons and Property	1,000	1,000		1,000
Transportation Facility and Services	275,000	275,000		275,000
Administration	301,020	303,074	153	302,921
Total Expenditures	<u>578,020</u>	<u>580,074</u>	<u>153</u>	<u>579,921</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(300,000)</u>	<u>(302,054)</u>	<u>5,765</u>	<u>307,819</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			100,000	100,000
Total Other Financing Sources (Uses)			<u>100,000</u>	<u>100,000</u>
Net Changes in Fund Balances	(300,000)	(302,054)	105,765	407,819
Fund Balances - Beginning	<u>300,000</u>	<u>302,054</u>	<u>302,054</u>	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 407,819</u>	<u>\$ 407,819</u>

**FLEMING COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2005

**1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**2. Reconciliation**

	<u>Other Financing Sources (Uses)</u>	<u>Expenditures</u>
<b>General Fund</b>		
Budgetary Comparison Schedule	\$ 1,378,900	\$ 3,481,945
KY Advanced Revenue Program Receipts	(1,570,900)	
Kentucky Advanced Revenue Program Principal Payments		(1,570,900)
	<u>                    </u>	<u>                    </u>
Statement of Revenues, Expenditures, And Changes in Fund Balance – Modified Cash Basis	<u>(192,000)</u>	<u>1,911,045</u>
 <b>Road Fund</b>		
Budgetary Comparison Schedule	\$ 150,600	\$ 1,535,280
KY Advanced Revenue Program Receipts	(35,600)	
Kentucky Advanced Revenue Program Principal Payments		(35,600)
	<u>                    </u>	<u>                    </u>
Statement of Revenues, Expenditures, And Changes in Fund Balance – Modified Cash Basis	<u>\$ 115,000</u>	<u>\$ 1,499,680</u>

**FLEMING COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2005**

FLEMING COUNTY  
 COMBINING BALANCE SHEET -  
 NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
 Other Supplementary Information

June 30, 2005

	Jail Fund	Forestry Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 4,765	\$ 346	\$ 5,111
Total Assets	<u>\$ 4,765</u>	<u>\$ 346</u>	<u>\$ 5,111</u>
 FUND BALANCES			
Reserved for:			
Encumbrances	\$ 99		99
Unreserved:			
Special Revenue Funds	<u>4,666</u>	<u>346</u>	<u>5,012</u>
Total Fund Balances	<u>\$ 4,765</u>	<u>\$ 346</u>	<u>\$ 5,111</u>

**FLEMING COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2005**

**FLEMING COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

For The Year Ended June 30, 2005

	Jail Fund	Forestry Fund	Non-Major Governmental Funds
<b>REVENUES</b>			
Taxes	\$	\$ 1,720	\$ 1,720
Intergovernmental	48,554		48,554
Charges For Services	33,536	57	33,593
Miscellaneous	20		20
Total Revenues	<u>82,110</u>	<u>1,777</u>	<u>83,887</u>
<b>EXPENDITURES</b>			
Protection to Persons and Property	227,185	1,640	228,825
Administration	9,461		9,461
Total Expenditures	<u>236,646</u>	<u>1,640</u>	<u>238,286</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(154,536)</u>	<u>137</u>	<u>(154,399)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds	157,000		157,000
Total Other Financing Sources (Uses)	<u>157,000</u>		<u>157,000</u>
Net Change in Fund Balances	2,464	137	2,601
Fund Balances - Beginning	2,301	209	2,510
Fund Balances - Ending	<u>\$ 4,765</u>	<u>\$ 346</u>	<u>\$ 5,111</u>



**FLEMING COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For The Year Ended June 30, 2005**

FLEMING COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information of Fleming County, Kentucky.
2. One reportable condition relating to the internal control of the audit of the financial statements is reported in the Independent Auditors' Report.
3. No instance of noncompliance material to the financial statements of Fleming County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditors' Report.
5. The auditors' report on compliance for the audit of the major federal awards programs for Fleming County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Fleming County reported in Part C of this schedule.
7. The program tested as a major program was: U.S. Department of Housing and Urban Development, Community Development Block Grant (CFDA 14.228).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Fleming County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

None

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

REPORTABLE CONDITIONS

2005-1 The County Should Maintain An Accurate Encumbrance List

We noted during our encumbrance testing that the encumbrance list as of June 30, 2005 did not agree to the financial statements. The encumbrance list total should match the encumbrances included on the Treasurer's fourth quarter report. We recommend that the Finance Officer prepare an accurate encumbrance list in the future.

*County Judge/Executive Larry Foxworthy's Response:* We will request information from other counties to advise us of their procedures in implementing the proper procedures to eliminate this.

*County Treasurer Kathy Dryden's Response:* Will talk with other counties to address the P.O.'s after court meeting in June and how to show on quarterly.

FLEMING COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2005  
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

REPORTABLE CONDITIONS (Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

2004-01 The County Should Maintain An Accurate Schedule Of Expenditures Of Federal Awards –  
Corrected in fiscal year 2005

2004-02 The County Should Eliminate The Deficit In The Payroll Revolving Account – Corrected in  
fiscal year 2005

2004-03 The County Lacks Adequate Segregation Of Duties – Corrected in fiscal year 2005

**FLEMING COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FLEMING COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2005

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Justice		
Passed-Through State Justice Cabinet:		
Public Safety Partnership and Community		
Policing Grants - (CFDA 16.710)		
Violence Against Women	Not Available	\$ 26,253
U.S. Department of Homeland Security		
Passed-Through State Department		
of Military Affairs:		
Emergency Management Performance Grants -		
(CFDA 97.042)		
Emergency Response/Operating Plan Update	Not Available	225
Division of Emergency Services Coordinator Salary	Not Available	14,317
Public Assistance Grants - (97.036)		
Severe Weather	FEMA 1523-DR-KY	55,693
Direct to County - (97.067)	Not Available	56,610
Law Enforcement - (97.074)	Not Available	<u>15,836</u>
Total U.S. Department of Homeland Security		\$ 142,681
U.S. Department of Interior		
Land and Water Conservation Fund		
Grant (CFDA #15.916)	Not Available	10,715
U.S. Department of Housing and Urban		
Development - (14.228)		
Community Development Block Grant	Not Available	<u>1,000,000</u>
Total Cash Expenditures Of Federal Awards		<u>\$ 1,179,649</u>

FLEMING COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Fiscal Year Ended June 30, 2005

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Fleming County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Of the federal expenditures presented in the accompanying Schedule of Expenditures of Federal Awards, Fleming County Fiscal Court provided federal awards to the following sub recipient:

<u>Program</u>	<u>CFDA Number</u>	<u>Subrecipient</u>	<u>Pass-Through Grant Amount</u>
U.S. Department Of Housing And Urban Development - Community Development Block Grant	14.228	Flemingsburg - Fleming County Industrial Authority	\$ 1,000,000

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

*Morgan-Franklin, LLC*

*Certified Public Accountants*

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The Honorable Larry Foxworthy, Fleming County Judge/Executive  
Members of the Fleming County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Fleming County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated April 28, 2006. Fleming County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fleming County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Fleming County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item:

2005-1 The County Should Maintain An Accurate Encumbrance List

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable condition described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Fleming County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

Audit fieldwork completed -  
April 28, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

*Morgan-Franklin, LLC*

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The Honorable Larry Foxworthy, Fleming County Judge/Executive  
Members of the Fleming County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Fleming County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Fleming County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Fleming County's management. Our responsibility is to express an opinion on Fleming County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fleming County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Fleming County's compliance with those requirements.

In our opinion, Fleming County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Fleming County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Fleming County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

Audit fieldwork completed -  
April 28, 2006

## Appendix A

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

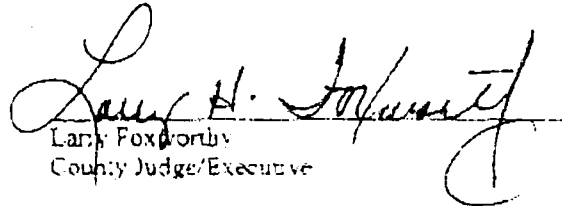
**FLEMING COUNTY FISCAL COURT**

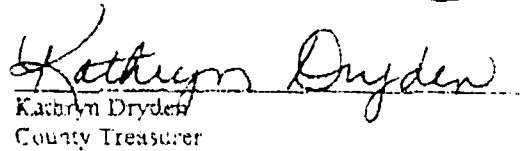
**For The Fiscal Year Ended  
June 30, 2005**

CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
FLEMING COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Fleming County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
Larry Foxworthy  
County Judge/Executive

  
Kathryn Dryden  
County Treasurer